

the effective planning period. The levelization process is accomplished by calculating the present worth of the number of units for each year in the planning period, summing those values to obtain the cumulative present worth of costs and of units, and dividing the cumulative present worth of costs by the cumulative present worth of units. The planning period is equal to the proposed economic life of the plant or ten years, whichever is shorter. A decision to limit the planning period to a maximum of ten years was made for two reasons: (1) difficulties in projecting economic life beyond ten years and (2) little difference between levelized capital-related cost factors based on a ten year planning period and those based on a period greater than ten years.

Depreciation annual cost factors reflect book depreciation, i.e., the accounting process by which the cost of a fixed asset are spread over the useful life of that asset. Book depreciation is calculated using the straight-line method. The straight-line method requires that the difference between gross investment and net salvage be spread ratably over the life of the plant. Under straight-line depreciation, the depreciation rate is applied to the gross investment in order to spread depreciation over the life of the plant even though net investment is decreasing over the life. Straight-line depreciation gives no recognition to the time value of money. The levelization

process, however, does give some recognition to the time value of money.

Incremental cost-of-money is determined in part by the financial market and represents the investor's expected return of his investment. The levelized cost-of-money factor is dependent on net investment and the overall cost-of-money rate. The overall cost-of-money rate depends on the cost of equity financing, the cost of debt financing, and the debt-to-equity ratio of the capital structure of the company. This cost-of-money rate represents the long-term objective debt/equity mix and component cost of each. It may be noted that the cost-of-money levelized factor will be lower than the composite cost of money rate. This is true because the net investment per unit is decreasing as the plant is being depreciated and because of the levelization process itself.

The incremental income tax factor is developed to reflect the income tax in two situations: Payment of dividends to stockholders, which are neither tax deductions nor accounting expenses: and the existence of a tax-timing difference between book depreciation and tax depreciation. While interest paid to bondholders is book expense and deductible for income tax purposes, the federal government and most state governments levy a tax on the revenues which are earned to compensate stockholders for the use of their money. A company must pay income taxes on the equity

portion of return, but the debt portion is tax exempt. The tax-timing differences for depreciation are the result of both different depreciable lives and different depreciation methods (straight-line versus accelerated). In addition, the basis for tax depreciation may be different from the basis for accounting.

Operation-related costs are those costs associated with company operations: maintenance costs, ad valorem taxes, capital stock taxes, other taxes, and administrative costs. Operation-related costs exist because the company is operating and earning revenues. In their simplest form, operation-related cost factors are the ratio of annual operating expenses to investments. These ratios are computed by dividing the annual operating costs by category of plant by the investment in that category of plant. The incremental/directly assigned maintenance factor includes the cost of material used and direct labor for ordinary repairs and maintenance, as well as rearrangements and changes necessary for all categories of plant (except land) in order to provide proper service. It also includes maintenance-type expenses such as transmission power, subscriber line testing, and trunk testing, when applicable. Certain maintenance expenses are excluded from the central office categories of plant, specifically subsequent right-to-use fees and service order activity-related expenses.

These costs are generally identified separately in cost studies.

The following accounting data are used in the development of the incremental/directly assigned maintenance factor.

- Actual maintenance expenses by USOA filed reporting code (FRC) for the previous year taken from the company's ledgers.
- Actual investment at the end of June of the previous year (used as average investment) from company report 2A.
- Actual investment at the end of December of the previous year (used to determine average investment in first projected year).
- Projected maintenance expenses and projected end-of-year investments.

The incremental/directly assigned maintenance factor is derived by dividing the sum of the present worth of one year of actual maintenance expense and three years of forecasted maintenance expense for a particular category of investment by the sum of the present worth of one year of actual investment and three years of budgeted investment for a particular category of investment, then adding a "loading" amount for transmission power, subscriber line testing, and trunk testing when applicable. Maintenance loadings for

transmission power, subscriber line testing, and truck testing are developed similarly.

The incremental/fully assigned maintenance factors are based on the same methodology and data as the incremental/directly assigned maintenance factors except that the subsequent right-to-use fees and service order activity-related expenses associated with rearrangements or repairs are added back to the actual and budgeted maintenance expenses.

The incremental/fully assigned maintenance factors were not used to calculate the costs included on the TRP charts. However, the incremental/fully assigned maintenance factors were used to calculate maintenance costs in the EIS and VEIS cost studies, Bellsouth Transmittal No. 92, dated February 16, 1993 and Bellsouth Transmittal No. 119, dated June 14, 1993, respectively. The difference between the incremental/directly and incremental/fully assigned maintenance factors is overheads.

The ad valorem, capital stock, and other tax factors are effective tax factors, which are developed by calculating the ratio of tax expense accounts to the telephone plant in service. The tax expense accounts are: account 7240.1000 Property Taxes, which includes taxes levied upon the assessed value of property; account 7240.3000 Capital Stock Taxes, which includes taxes levied upon the value or number of shares of outstanding capital

stock, upon invested capital, upon rate of dividends paid, etc.; and account 7240.9000 Other Taxes, which includes other non-income, non-revenue taxes such as municipal license taxes, state privilege taxes, state self-insurer's taxes, etc.

The administrative expense factor is developed to assign expenses categorized as administrative overheads across telephone products and services on the basis of investment. The administrative expense factor calculation is developed by dividing the sum of the present worth of one year of actual administrative expense and three years of budgeted administrative expense by the sum of the present worth of one year of actual primary investment and three years of budgeted primary investment.

The incremental/directly assigned administrative expenses include expenses such as accounting and finance, information management, and carrying charges on support investments, such as land, building, furniture, office equipment, and motor vehicles. (Any expense amounts associated with central office land and building is excluded.) Some administrative expenses are excluded from the incremental/directly assigned administrative expense factors, specifically: service order processing costs, large computer systems costs, and billing and collection costs.

The incremental/fully assigned administrative expenses include the directly assigned administrative expenses listed above, plus service order processing costs associated with residence and single line business, large computer systems costs, and billing collection costs, plus common overhead expenses such as network administration, engineering, executive, planning, external relations, human resources, legal, procurement, and research and development.

The incremental/fully assigned administrative expense factor was not used to calculate the costs included on the TRP charts. However, the incremental/fully assigned administrative expense factor was used to calculate administrative expense costs in the EIS and VEIS cost studies, BellSouth Transmittal No. 92, dated February 16, 1993 and BellSouth Transmittal No. 119, dated June 14, 1993, respectively. The difference between the incremental/directly and incremental/fully assigned administrative expense factors is overheads.

The primary investment is the average plant in service less the secondary investments not considered primary average plant in service. These secondary investments are land (other than land associated with central offices), motor vehicles, special purpose vehicles, garage work equipment, other work equipment, buildings (other than central offices), furniture, office equipment, and computers.

Basis of Investment (Para. 22(b)(2))

The investments for the central office building and associated land occupied by the 100 square foot interconnection space enclosure included in the EIS Interconnection Floor Space - per 100 Square Foot Module rate element are embedded. Book gross investments for land and building per assignable square foot of central office space were calculated based on accounting and property management reports and records. The regional book gross investment for central office building floor space per assignable square foot is \$72.71 and for land is \$2.75. These amounts were included in BellSouth Transmittal No. 92, dated February 16, 1993, Appendix A Workpaper 2.1. These investments were multiplied by 100 to obtain the investments for land and building occupied by a 100 square foot enclosure.

The investments for the central office building and associated land occupied by the virtual collocater's equipment included in the VEIS Floor Space - per Square Foot rate element are embedded. Book gross investments for land and building per assignable square foot of central office space were calculated based on accounting and property management reports and records. The regional book gross investment for central office building floor space per assignable square foot is \$72.71 and for land is \$2.75.

These amounts were included in BellSouth Transmittal No. 119, dated June 14, 1993, Appendix A Workpaper 2.1C.

All other investments in the EIS and VEIS cost studies are prospective.

Depreciation Lives (Para. 22(b)(2))

The depreciable life for each item of equipment listed in the Tariff Review Plan is the estimated economic life. The estimated economic life is forward-looking, i.e., taking into account future economic life predictions based on engineering, marketing and planning considerations. New technology, obsolescence and management replacement programs are significant considerations. Economic depreciation lives are based on estimates of future economic usefulness of the assets rather than being tied to past historical data. Therefore, it is appropriate to use economic lives to determine incremental depreciation costs in order that all relevant costs be considered for pricing purposes.

Cost of Money (Para. 22(b)(2))

In developing long run incremental costs, the cost of money cost component reflects future cost to the corporation of capital. The cost of money is the composite cost of equity and debt of the corporation. The 13.34% is based on the market value of debt and equity, that is the expectations of shareholders and financial creditors in the market place. BellSouth must meet or exceed the market rate of return (cost of money) in order to ensure that its investors (stockholders) and creditors will continue to lend their capital to the company.

The cost of money percentages displayed on the TRP chart range from 12.09% to 13.93% when developed as prescribed on the TRP chart by the FCC.

BellSouth's cost of money development includes additional factors such as the effect of accelerated tax depreciation. The effect of accelerated tax depreciation levelized over the life of an investment has the tendency to reduce the overall levelized cost of money. This is the basis reason for the cost of money displayed on the TRP forms for investments with predominately shorter lives, 14 years or less, being less than 13.34%.

The second consideration which affects the cost of money is the planning period. For investments with predominately longer lives such as 44.7 years, the cost of money is levelized over a period of time less than the total

investment life. This will result in a levelized cost of money that is slightly greater than 13.34%.

The percentages displayed on the TRP chart reflect these effects. The percentages for those investments with the shorter lives have a lower cost of money than those investments with the longer lives.

Nonrecurring Costs (Para. 22(b)(3))

Nonrecurring charges for EIS and VEIS are cost-based. Appendix A Workpapers 3, 3A, 3B, 3C, 3D, 3E, and 3F provided in BellSouth Transmittal No. 92, dated February 16, 1993, set forth the work times per work function and the total labor cost for each EIS nonrecurring rate element. Appendix A Workpapers 3, 3A, 3B, and 3C provided in BellSouth Transmittal No. 119, dated June 14, 1993, set forth the work times per work function and the total labor cost for each VEIS nonrecurring rate element. The filed rates reflect only the costs incurred by the Company to provide these services.

The method used to determine the nonrecurring cost for a particular rate element is as follows. The work times for each work function by work group are identified based on estimates of persons who perform these functions. These work times are multiplied by the appropriate fully assigned labor rate and summed to determine the total cost for that rate element.

Listed below are the work operations for EIS rate elements.

Marketing - The work time identifies the time expended in meeting with the customer to determine the customer's exact requirements for collocation, beginning the questionnaire process for collocation requests, outlining the customer's needs within BellSouth departments,

determining the rates to be charged for the collocation request, and to deliver the rates to the customer and obtain the customer's satisfaction. The identified work time also includes the time required to negotiate with the customer a collocation date, accomplish the collocation, issue identification and resolution, obtain customer concurrences (as needed), and insure correct customer billing.

Property Management (PPSM) - The work time identifies the time necessary for the application to be received by PPSM in the Building Service Center and assign a Branch Planner to verify the customer's needs then determine the availability of space for collocation.

Interchange Network Access Coordinator (INACC) - The work time reflects the time needed to receive and distribute the inquiry, clarify the requirements and then verify those needs with Marketing and the Customer. It also reflects the time required to plan and coordinate with PPSM for establishing a building completion date to report back to Marketing.

Interoffice Facility Current Planning Center (IFCPC) - The work time reflects the time necessary to determine and assign the necessary facilities and equipment needed to provision the requested service, identify work time required to receive inquiry document and analyze the inquiry and forecast. The work time also includes the joint planning meeting time required.

Equipment Engineer - The work time includes consulting with space planners to determine the space to be assigned and reviewing the central office records. The time consists of all field visit time to determine the extent of any cabling, cable rack and riser work required. Included also is time to review central office power plant to insure adequate capacity and then estimating the overall interval required to complete the work. The work time also includes the time needed to participate in a joint planning meeting.

Distribution Services Support Center - The reported work time accounts for work activities necessary for Outside Plant Engineer personnel to verify conduit availability.

Interchange Customer Service Center (ICSC) - The work time reflects the time expended receiving collocation inquiries, verifying information, establishing an account and routing the necessary information to the billing organization.

Comptroller Clerical - The work time represents the time required to establish billing.

Distribution Services Support Center - The work time is the time needed for Outside Plant Engineering forces to interface with Collocator, document Engineering Work Order and verify field conditions. Time expended for Engineering personnel to draw and post Engineering Work Order to records is also identified. Work time also accounts for Engineering

time that is needed to supervise collocators presence in Company underground systems.

Similar information for VEIS, i.e., the work functions which account for work time within the various work center/groups involved in provisioning VEIS, was provided in BellSouth Transmittal 119, dated June 14, 1993.

Labor rates for specific work groups used in the nonrecurring cost studies are developed annually based on the previous year's data. Labor rates are developed from the prior year's labor expense and work hours. In this process, the actual costs for a given work group are accumulated by expenditure type (e.g., direct labor-productive, premium, other employee, etc.). These costs are divided by the actual hours (productive hours) reported by work group to determine the basic rates. A factor from the BellSouth Region Telephone Plant Indexes (TPI) is applied to bring these rates to the current year level (since they are developed using previous year-end actual data).

There are various cost components that make up the labor rates. The following is a list of these cost components and a definition of each. The definitions are basically the same for plant, engineering or service order processing (SOP) labor rates.

1. Direct Labor - Productive

Actual straight time wages paid to occupational work reporting employees for regularly scheduled time and overtime spent performing productive work.

2. Direct Labor - Other Premium

Actual wages paid to occupational work reporting employees for premium hours.

3. Direct Labor - Other Employee

Actual wages and salaries paid to occupational work reporting employees for allowances and special differentials, merit awards, wage adjustments, team incentive awards and pay in lieu of vacation.

4. Direct Labor - Annual Paid Absence

The distributed costs of a monthly prorata share of payments to be made over the year to occupational work reporting employees for holidays, vacations and excused days.

5. Direct Administration

The distributed costs of salaries paid during the month to the first level of supervision who is responsible for supervising occupational work reporting employees, and salaries and wages paid to employees and immediate supervisors who perform basic office services for occupational work reporting employees.

6. Direct Labor - Total (Sum of 1 through 5)

7. Direct Labor - Other Costs

The distributed costs incurred for office, traveling and other costs of facilities and network services employees whose wage and salary costs are distributed as direct labor or direct administration.

8. Other Tools

Salaries and wages, benefits, rents and other distributed costs associated with other work equipment used by facilities and network services employees.

9. Motor Vehicles

Salaries and wages, benefits, rents and other cost portion of the plant motor vehicle expenses which are distributed to construction, removal or plant specific operation expense accounts based on the classified productive hours of the labor groups using the motor vehicles.

10. Benefits

The distributed costs of the payroll related benefits and taxes for active facilities and network services employees.

11. Total Directly Assigned (Sum 6 through 10)

12. Indirect Administration - Area

Salaries

Salaries of facilities and network services administrative employees, above the first level of supervision up to the Board-Appointed Officers, who supervise facilities and network services activities within an operating area, and the salaries and wages of their staffs and clerical support.

Other

Cost incurred during the month for office, traveling and other costs of facilities and network services employees whose wage and salary costs are distributed as indirect administration - area.

13. Indirect Administration - Other

Salaries

Salaries of sector or company facilities and network services administrative employees, up to Board-Appointed Officers, who supervise facilities and network services activities, and the salaries and wages of their staffs and clerical support.

Other

Costs incurred during the month for office, traveling and other costs of facilities and network services employees whose wage and salary costs are distributed as indirect administration - other.

14. Unclassified Support - Area

Salaries

Salaries and wages of area facilities and network services administration employees, and their staffs and clerical support, who support general facilities and network services employees.

Other

Costs incurred for office, traveling and other costs of facilities and network services employees whose wage and salary costs are distributed as unclassified support - area.

15. Unclassified Support - Other

Salaries

Salaries and wages of sector and company facilities and network services administration employees, and their staffs and clerical support, who support general facilities and network services activities.

Other

Cost incurred for office, traveling and other costs of facilities and network services employees whose wage and salary costs are distributed as unclassified support - other.

16. Unclassified Costs

Salaries

Salaries and wages paid to occupational work reporting employees for certain paid absences, short period sickness, military leave, termination pay, BellSouth career continuation program payments and income protection programs.

Other

Distributed costs or other expenses related to costs of monthly evaluated labor unclassified productive hours.

17. Benefits

The distributed costs of the payroll related benefits and taxes for indirect administrative employees.

18. Total Fully Assigned (Sum of 11 through 17)

Directly assigned labor rates per hour are the wages of the productive employee with loadings up to the first level of supervision. Components 1-10 above are included in the directly assigned labor rates. These costs are directly traced to a specific job function code, i.e., direct labor (productive, premium, other), direct administration, other tools, motor vehicles, and benefits.

Several other components are added to the directly assigned amounts to compute the fully assigned labor rates. These components, 12-17 above, are indirect administration, unclassified support, unclassified costs, and benefits.

Total fixed costs are loadings added to the labor rates to include general overhead costs, i.e., land and building (other than central offices), furniture, office equipment, and personal computers. These loadings by specific work

groups are developed annually based on the previous year's data from various company reports. The total operating expense for land and buildings (other than central offices), furniture, office equipment, and personal computers is apportioned to specific work groups based on the percentages of wages and salaries for the work group. The resulting amount is then divided by the number of employees in the work group, then divided by the number of hours worked in a year to obtain the expense amount per hour. A factor from the BellSouth Region Telephone Plant Indexes (TPI) is applied to inflate these rates to the current year (since they are developed using previous year-end actual data).

Listed below are the work groups and labor rate loadings for those groups performing work activities necessary to provision EIS. The loadings are the fixed costs as defined above.

<u>WORK GROUP</u>	<u>LOADING INCLUDED IN HOURLY LABOR RATE</u>
INAC	12.37
"	9.72
"	9.72
"	19.45
"	9.72
"	9.72
IFCPC	9.72
PFSM	9.72
ICSC	12.37
OSPD	9.72
"	9.72
"	9.72
"	9.72
"	9.72
MKTG.	12.37
EQUIP. ENG.	9.72
CPC	9.72
"	9.72
NTEC	9.72
CC	9.72

Listed below are work groups and labor rate loadings for those groups performing work activities necessary to provision VEIS. The loadings are the fixed costs as defined above.

<u>WORK GROUP</u>	<u>LOADING INCLUDED IN HOURLY LABOR RATE</u>
INAC	12.37
"	9.72
"	9.72
"	19.45
"	9.72
"	9.72
IFCPC	9.72
NSP	9.72
ICSC	12.37
OSPC	9.72
OSPD	9.72
"	9.72
"	9.72
"	9.72
"	9.72
MKTG.	12.37
EQUIP. ENG.	9.72
CPC	9.72
"	9.72
NTEC	9.72
CC	9.72